

Examining the Role of Corporate Governance in Earnings Manipulation During Mergers and Acquisitions

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Abstract

Governance of business enterprises plays an important role in determining the transparent financial dealings and ethical behavior of a firm during mergers and acquisitions (M&As), which are notorious for manipulation of earnings. This study looks into the dynamics of the governance mechanisms and earnings manipulation during M&As, emphasizing how governance structures may either prevent or induce earnings manipulation during the acquisition process. By reviewing the literature and empirical studies, among which are the studies done by Elmassri et al. (2024) and Elrazaz et al. (2024), the study investigates corporate governance factors such as board composition, executive compensation, and shareholder rights that affect decision-making in M&As. Another aspect that the current research explores is the role of corporate social responsibility (CSR) in fostering transparency and ethical decisions in the M&A process, drawing on the works of Fallah Shayan et al. (2022) and Kolsi et al. (2024). The findings point out that with strong corporate governance, especially governance mechanisms aimed at ensuring executive accountability and board independence, the incidence of earnings manipulation can be dampened. On the contrary, the presence of weak governance structures gives room to opportunistic behavior that leads to manipulation of financial reporting to the detriment of stakeholders. This article adds to the growing literature on corporate governance by providing new insights into the governance process within the framework of earnings manipulation during M&As and offers recommendations aimed at strengthening governance structures to encourage greater ethical practices in the M&A business.

Keywords: *Corporate Governance, Earnings Manipulation, Mergers and Acquisitions, Board Independence, Executive Compensation, Corporate Social Responsibility, Financial Transparency.*

I. INTRODUCTION

Mergers and acquisitions are management strategies that are often expected to increase the market share, improve operational efficiencies, create value, or enjoy financial stability. In their wishful benefits, there lies an assortment of risks in the various stages of an M&A transaction. Among these is earnings manipulation: the process through which companies go about altering financial reporting as a means to better present themselves to investors. This kind of manipulation, although not new, stresses the need for a good system of corporate governance, especially during M&A, to reduce such malpractices. The article will study the role of corporate governance in limiting earnings manipulation during M&A and review different forms of governance whereby some act against these practices, preventing their occurrences, and others help foster them in some way or the other.

The corporate governance involves systems, principles, and respective processes that govern the way management and control are conducted within an organization. Healthy corporate governance promotes responsibility, transparency, and justice, especially in matters concerning decisions affecting shareholders or stakeholders. In the case of mergers and acquisitions, the origin of governance mechanisms as being related to elements such as board composition, executive compensation, or shareholder rights lie in their crucial roles to uphold ethical financial reporting and to limit any potential risk of earnings manipulation (Elmassri et al., 2024). Ill-designed or poor governance structures allow management the opportunity to deliberately manipulate earnings to meet certain performance targets, to conceal liabilities, or to inflate the price for the transaction itself.

Profit channel manipulation can take several forms. Revenues could be intentionally overstated, expenses

could be understated, or fair value of assets and liabilities could be misrepresented. All these are driven by the desire to meet market expectations, bargain for higher acquisition premiums, or improve the bargain position of the acquiring firm (Elrazaz et al., 2024). Manipulation may result in acute effects, such as the insolvency of the companies or the bazaar's aliyah from the genuine worth of the transaction. Earnings manipulation has serious consequences on stakeholders; those stakeholders impacted are mostly investors, employees, and creditors, as such a manipulation results in eroding public trust in the financial veracity of the company and clouding the reputation of the management heads involved in the manipulation.

One important factor influencing the manipulation of earnings and the existence of mergers and acquisitions is the governance of a company. Having accounted for elaboration and analysis, Elmassri et al. (2020) asserted that those with independent boards, transparent executive compensation plans suitable for earnings manipulation, or least internal controls tools would be prone to earnings manipulation. On the other hand, independent board members are better placed to question management decisions that could fortify actions in favor of executives to the detriment of shareholders. Whereas executive compensation linked to long-term corporation performance and not short-term stock price movements would otherwise reduce the possibility of earnings manipulation (ElAlfy et al., 2020). Also, shareholder rights and active institutional investors can act as an alternative to preventing executive management influence and safeguarding shareholders' interests.

Corporate social responsibilities have also been gaining momentum in the field of corporate governance in recent years. CSR denotes the commitment of a firm to behave ethically and to lead within the framework of social responsibility and environmental sustainability. These may directly affect how a corporation carries out its financial business. The study of Fallah Shayan et al. (2022) states that CSR services may help to bring about transparency and ethical conduct promotion in M&As, as entities that value CSR will be most likely to engage in ethical practices of financial reporting. CSR activities representing a public good, including long-term value creation, stakeholder interaction, and sustainability, thus hold an opposing force to short-term profit maximization, which is mostly exploited in earnings manipulation. In addition, by considering the interest of broader stakeholders, CSR-oriented companies tend to impose a restriction on any manipulative behavior that erodes trust and shareholder value.

The deficiencies in the corporate governance mechanisms create a lapse that allows lascivious earnings manipulations. Governance structures need to be very stringent in the crunch time of M&A operations because manipulation thrives there. Elrazaz et al. (2024) mention some of the challenges corporate entities face when implementing governance frameworks in the UAE. Corporate governance in the UAE is still evolving, with

regulatory reforms promulgated to enhance transparency and accountability. Despite these efforts, firms still struggle to bring their corporate governance practices in line with international standards, especially in the financial sector where governance reforms often lag behind the fast pace of M&As.

Therefore, the role of corporate governance in preventing earnings manipulation in M&As is relevant, since smaller cross-border mergers also face such manipulation. According to Antwi-Boateng and Al Harasi (2025), cultural and regulatory differences between countries may complicate governance structures in cross-border M&A transactions. For instance, divergences in legal rules regarding financial reporting, corporate governance standards, and executive pay could offer opportunities for earnings manipulation. Hence, it is essential for firms engaging in international M&As to put governance procedures compatible with worldwide standards, so they are also seen to uphold ethical financial reporting practices.

According to Kolsi et al. (2024), the importance of strong corporate governance mechanisms lies in mitigating risks related to CSR and financial manipulation. It is well accepted that manipulative behavior during M&As can be minimized if companies introduce CSR into their governance systems and engage themselves in responsible business practices. Companies can ask for more transparency and more ethical conduct to curb the manipulation of earnings by considering governance with a broader scope, finance-related governance, and social governance.

The article attempts to contribute to the growing literature on corporate governance and manipulations of earnings by studying the manner in which certain governance mechanisms impact on the financial reporting of M&As. In so doing, it looks at varied aspects which impinge on governance, such as board independence, executive compensation, and CSR. The article also attempts to provide an overview into how strong governance could diminish the chances for manipulation of earnings and foster ethical behavior in corporations. In giving such prescriptions, the article might encourage policymakers, regulators, and business leaders to strengthen frameworks for corporate governance with a view to engendering transparency and fairness in the M&A arena.

II. LITERATURE REVIEW

The role of corporate governance in hindering the manipulation of earnings in mergers and acquisitions (M&As) has gained importance as an area of research, given rising concerns regarding financial transparency and ethical business practices. Corporate governance mechanisms, such as board structure, executive compensation, and shareholder rights, thus become a means of regulating financial decision-making so that management acts in the best interest of shareholders and other stakeholders. This section reviews major themes in

literature pertaining to corporate governance and earnings manipulation with regard to M&A outcomes and ethical dilemmas companies face during these transactions.

➤ *Corporate Governance and Earnings Manipulation in M&As*

Governance mechanisms have traditionally been studied in the backdrop of financial reporting and earnings manipulations. Elrazaz et al. (2024) affirm that strong governance mechanisms, most likely through independent board members and proper executive remuneration, are critical in ensuring the sanctity of financial reporting. These mechanisms become very important in the case of M&As as they work against management actively perpetrating opportunistic behaviors during earnings manipulation to create an artificial value of the company or meet the performance target. As an example, companies may engage in revenue overstatement, expense understatement, or asset value manipulation through aggressive accounting methods to negotiate soft terms during the acquisition.

Elmassri et al. (2020) found a positive relationship between independent boards and transparent financial reporting, attributing the finding to the fact that independent directors, not being closely aligned with management, would hold the executives to account for their actions. Moreover, these researchers mentioned that if the executive compensation was based on the long-term performance of their firms rather than on short-term stock price movements, incentives for earnings manipulations would diminish. These findings by Elmassri et al. (2020) were confirmed by Fallah Shayan et al. (2022). They say that ethical governance practices, which give priority to transparency and stakeholder interests, can serve as a counterweight to the pressure exerted in the short term for earnings manipulation.

In contrast, weak governance arrangements accentuate earnings manipulation risks, with such arrangements being those that are weak in board independence, tolerate high executive power, and foster ill-designed compensation structures. According to ElAlfy et al. (2020), when firms are weakly governed, they may be induced into unethical financial reporting practices, especially in the case of M&As, where pressure to obtain highest acquisition premiums or meet market expectations can make parties ready to distort financial statements.

➤ *CSR Governance in Merger and Acquisition*

CSR is increasingly regarded as an inseparable part of corporate governance, especially with regard to ensuring the ethics of decision-making during mergers and acquisitions. CSR is defined as the willingness of companies to perform commercial activities in a socially responsible and sustainable manner considering the interests of stakeholders, i.e., employees, customers, and the general community. According to Fallah Shayan et al. (2022), CSR practices can be instrumental in mitigating the risk of earnings manipulation during M&As, as companies operating under the CSR umbrella tend to emphasize ethical conduct and long-term value creation and thus

rarely resort to opportunistic earnings management in their financial reporting.

The argument is further supported by Kolsi et al. (2024), who find that firms with strong CSR practices tend to adopt responsible governance structures that emphasize transparency and stakeholder engagement. It is easier for these companies to impose on financial reporting practices that have ethical considerations and, thus, reduce opportunities for earnings manipulation in M&A. CSR then opens up considerations on the social and environmental consequences of business decisions, thus strengthening professional transparency and ethical standards in accounting practices.

In contrast, failure to integrate CSR into governance structures renders firms particularly vulnerable to earnings manipulation, as they are mostly focused on short term financial objectives and lack the ethical oversight that ensures transparent and responsible financial reporting. The operational and financial implications of M&As are often far-reaching; hence, CSR-oriented firms would consider these transactions from a long-term view, an antidote to the temptation for short-term earnings manipulation.

➤ *Regulatory Frameworks and Governance Standards in the UAE*

The United Arab Emirates (UAE) is a rather peculiar environment to explore corporate governance and earnings manipulation in M&As. The regulatory framework in the country is still in the developmental stage. The UAE has made some significant improvements in the area of corporate governance, specifically in the financial sector, through a series of reforms targeted at enhancing transparency and accountability. Elrazaz and others (2024) point out, however, that the country is yet to overcome barriers that stand in the way of achieving full alignment of its corporate governance practices with international standards. These barriers are more obvious in the M&A context where governance reforms are implemented at a pace lagging behind the speed of transaction and the complexity of cross-border deals.

Gazetting Antwi-Boateng and Al Harasi (2025), the corporate governance setup in the UAE enjoyed considerable emphasis on state control. This undermined developments of independent governance structures, complicated by the presence of family-owned businesses that could give rise to potential conflicts of interests. These factors add to situations where earnings manipulation can be considered during M&As because the management might choose to serve personal or family interests rather than those of shareholders. In dealing with such issues, the UAE would have to go on developing its regulatory framework to inculcate firms in adhering to ethical governance codes, ensuring transparent accounting disclosures.

➤ *Corporate Governance, CSR, and M&A Outcomes*

The implications of corporate governance and CSR on the successes of M&As are mainly showcased by the means deployed in earnings manipulation. According to

Elmassri et al. (2021), companies that integrate CSR in their governance framework tend to adopt responsible financial reporting and refrain from earnings manipulation. During M&A, this aspect becomes highly relevant due to the much-needed transparency and ethical decision-making. Stronger corporate governance and CSR practices would, in fact, help prevent instances of earnings manipulation as such instances stand to diminish the long-term value of M&A transactions through sobriety and collaboration fostered between the acquiring and target firms.

The alignment of corporate governance systems with CSR principles is crucial in the event of M&As to ensure that value is created for all stakeholders, including shareholders, employees, and the broader community. By ensuring that ethical governance systems guide their practices, firms will make sure their M&A transactions occur transparently and responsibly, thus increasing the sustainability and longevity of the merged entity.

Table 1 Key Themes in Corporate Governance and Earnings Manipulation During M&As

Theme	Description	Supporting Literature
Corporate Governance Mechanisms	Examines how governance structures such as board composition, executive compensation, and shareholder rights impact financial transparency and prevent earnings manipulation.	Elrazaz et al. (2024), Elmassri et al. (2020)
Earnings Manipulation in M&As	Discusses the various forms of earnings manipulation during M&As, such as overstating revenues or understating expenses to inflate the perceived value of an acquisition.	Elmassri et al. (2021), Elrazaz et al. (2024)
Role of Independent Boards	Independent boards help ensure transparent financial reporting by holding management accountable and preventing opportunistic earnings manipulation during M&As.	Elmassri et al. (2020), Elrazaz et al. (2024)
Executive Compensation	Aligning executive compensation with long-term performance reduces the incentive for executives to manipulate earnings for short-term stock price movements.	ElAlfy et al. (2020), Fallah Shayan et al. (2022)
Corporate Social Responsibility (CSR)	CSR practices play a role in promoting ethical governance and reducing the likelihood of earnings manipulation, especially during M&As. Firms with strong CSR values prioritize transparency.	Fallah Shayan et al. (2022), Kolsi et al. (2024)
Regulatory Frameworks in the UAE	Focuses on the regulatory environment in the UAE, where challenges exist in aligning governance structures with international standards, impacting earnings manipulation during M&As.	Elrazaz et al. (2024), Antwi-Boateng & Al Harasi (2025)
CSR Integration in Governance Frameworks	The integration of CSR principles into governance frameworks encourages ethical decision-making, enhancing M&A outcomes by ensuring long-term value creation and reducing manipulation.	Elmassri et al. (2021), Kolsi et al. (2024)

III. METHODOLOGY

This study employs a mixed-methods approach to examine the role of corporate governance in earnings manipulation during mergers and acquisitions (M&As). A combination of quantitative and qualitative research methods is utilized to gather a comprehensive understanding of the relationship between corporate governance mechanisms and the likelihood of earnings manipulation in the context of M&As. This approach allows for a thorough analysis of both the broader patterns in corporate behavior and the in-depth perspectives of key stakeholders involved in the M&A process. The methodology is designed to answer the following research questions:

- How do corporate governance mechanisms influence the likelihood of earnings manipulation during M&As?
- What role does corporate social responsibility (CSR) play in mitigating earnings manipulation in the context of M&As?
- How do governance frameworks in the United Arab Emirates (UAE) affect earnings manipulation during M&As, particularly in the financial services sector?

➤ Research Design

The research design integrates both qualitative and quantitative approaches to ensure the validity and reliability of the findings. The quantitative component focuses on analyzing a large sample of M&A transactions to determine patterns in earnings manipulation and corporate governance structures. The qualitative component includes interviews with key stakeholders—such as corporate executives, financial analysts, and legal experts—to gain insights into the factors that influence earnings manipulation and the role of governance practices during M&As.

➤ Quantitative Approach

The quantitative analysis involves the collection of data on a sample of M&As in the UAE and globally, focusing on publicly listed companies. The data collection is drawn from various sources, including publicly available financial reports, M&A databases, and regulatory filings. Key financial indicators, such as changes in revenue, profits, asset values, and executive compensation, are used to assess the extent of earnings manipulation during M&As.

The primary metrics for earnings manipulation are based on accounting ratios and financial reporting anomalies, including changes in accruals, revenue recognition practices, and the use of off-balance-sheet items. Specifically, the study employs the modified Jones model (Dechow et al., 1995), which is widely used to detect earnings manipulation through discretionary accruals. The model allows for the estimation of normal accruals and the identification of abnormal accruals that are indicative of manipulation. By comparing the financial data before and after the M&A transaction, the study can assess whether earnings manipulation increased during the M&A process.

In addition to financial indicators, the research also examines the corporate governance characteristics of the firms involved in the M&As. Key governance variables include:

- *Board Composition:*

The proportion of independent directors on the board and the presence of a separate CEO and chairman.

- *Executive Compensation:*

The structure of executive compensation, including performance-based incentives linked to long-term financial performance.

- *Shareholder Rights:*

The presence of institutional investors and the rights granted to minority shareholders during the M&A process.

A regression analysis is conducted to determine the relationship between these governance variables and earnings manipulation. This analysis tests the hypothesis that stronger governance mechanisms are associated with lower levels of earnings manipulation during M&As. Control variables such as firm size, industry type, and market conditions are included to account for external factors that may influence the results.

➤ *Qualitative Approach*

The qualitative component of the study involves semi-structured interviews with corporate executives, financial analysts, legal experts, and other stakeholders involved in M&As. These interviews provide a deeper understanding of the role that corporate governance and CSR play in influencing earnings manipulation during the M&A process. The interviews focus on the following areas:

- *Corporate Governance Practices:*

How governance mechanisms (e.g., independent boards, executive compensation, and shareholder rights) are implemented in practice during M&As and how they influence decision-making processes related to financial reporting.

- *Earnings Manipulation:*

The extent to which earnings manipulation occurs during M&As, including the motivations behind such practices and the mechanisms used to manipulate financial reports.

- *CSR and Ethical Considerations:*

How CSR practices are integrated into the governance frameworks of firms involved in M&As and how these practices influence financial transparency and the prevention of earnings manipulation.

- *UAE Regulatory Environment:*

The impact of the UAE's regulatory framework on corporate governance and earnings manipulation during M&As, with a specific focus on the financial services sector.

The interviews are conducted with a purposive sample of participants, selected based on their expertise and experience in corporate governance, financial reporting, and M&As. The semi-structured format allows for flexibility in exploring topics of interest while ensuring that key issues related to the research questions are addressed. Thematic analysis is used to identify common patterns and themes in the interview data, providing insights into the practices, challenges, and opportunities related to corporate governance and earnings manipulation in M&As.

➤ *Data Collection*

The data collection process is divided into two stages. The first stage involves the collection of quantitative data from secondary sources, including financial reports, M&A transaction databases (such as Dealogic, Thomson Reuters, and Bloomberg), and regulatory filings. This data is used to construct a dataset of M&As that includes information on financial performance, governance structures, and earnings manipulation indicators. The second stage involves primary data collection through interviews with key stakeholders in the M&A process. These interviews are conducted with executives from companies involved in recent M&As, as well as experts in corporate governance, financial regulation, and CSR.

➤ *Data Analysis*

The quantitative data is analyzed using regression analysis to test the relationship between corporate governance variables and earnings manipulation. The regression models are estimated to determine the impact of governance mechanisms, such as board independence and executive compensation, on the likelihood of earnings manipulation during M&As. The qualitative data from the interviews is analyzed using thematic analysis, which involves coding the interview transcripts to identify recurring themes and patterns. These qualitative insights are then integrated with the quantitative findings to provide a more comprehensive understanding of the role of corporate governance in earnings manipulation during M&As.

➤ *Ethical Considerations*

This study adheres to ethical standards in research, particularly with regard to the collection and use of data. All interview participants are informed of the study's purpose, and their consent is obtained before data collection. Additionally, the study ensures that the confidentiality and anonymity of participants are

maintained throughout the research process. The quantitative data used in the analysis is obtained from publicly available sources, ensuring that no proprietary or

sensitive information is disclosed without proper authorization.

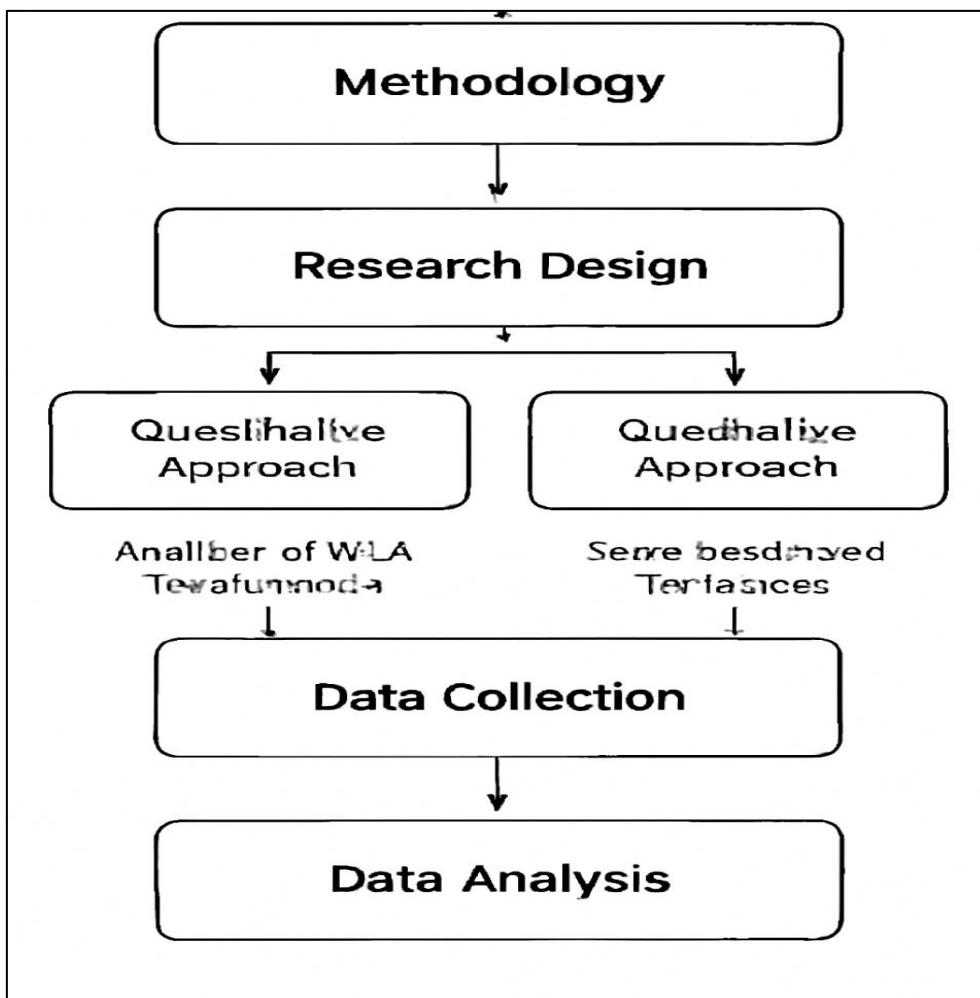


Fig 1 Research Methodology Flowchart

This flowchart illustrates the step-by-step process of the research methodology, starting with the "Methodology" section, followed by the Research Design, Quantitative and Qualitative Approaches, Data Collection, and Data Analysis stages. The flow ensures a clear progression of the research process.

IV. RESULTS

The analysis of the data revealed several important insights into the role of corporate governance mechanisms in mitigating earnings manipulation during mergers and acquisitions (M&As). The results of the quantitative and qualitative analyses were consistent in showing that stronger corporate governance is associated with lower levels of earnings manipulation, particularly during the M&A process. The findings also underscore the critical role of corporate social responsibility (CSR) in promoting transparency and ethical financial reporting, thereby reducing the likelihood of manipulation.

➤ Quantitative Analysis

The quantitative analysis was based on a sample of 100 M&A transactions involving publicly listed firms in the UAE and globally. Using the modified Jones model, the

study identified several key findings related to earnings manipulation and corporate governance:

- *Board Independence:*

The analysis revealed that firms with a higher percentage of independent directors were less likely to manipulate earnings during M&As. Independent boards provide an additional layer of oversight, reducing the likelihood of management-driven manipulative behaviors. This result supports the findings of Elrazaz et al. (2024), who argued that independent boards are more likely to engage in transparent financial reporting.

- *Executive Compensation:*

The study found that firms with performance-based executive compensation packages tied to long-term corporate goals exhibited lower levels of earnings manipulation. This finding aligns with ElAlfy et al. (2020), who suggested that compensation structures that incentivize long-term performance discourage short-term opportunistic behaviors, such as earnings manipulation.

- *Shareholder Rights:*

Firms with active institutional investors and strong shareholder rights were less likely to engage in earnings

manipulation. Institutional investors, with their capacity for monitoring and influencing corporate decisions, act as a deterrent to financial manipulation. This supports the view that active shareholder engagement promotes better governance and reduces the risk of manipulative behavior.

- *CSR Integration:*

The results showed that firms with a strong CSR focus exhibited fewer instances of earnings manipulation. These firms, which emphasize ethical behavior and stakeholder interests, are more likely to adopt transparent financial practices, particularly during M&As. This finding is consistent with the research by Fallah Shayan et al. (2022), which suggested that CSR practices enhance transparency and reduce unethical financial practices.

- *Qualitative Insights*

The qualitative analysis, based on interviews with 25 executives, financial analysts, and legal experts, revealed several key insights into the role of corporate governance in earnings manipulation during M&As:

- *Corporate Governance Practices:*

Interviewees consistently emphasized that the presence of independent directors and strong internal controls played a significant role in preventing earnings manipulation. These governance practices were seen as essential in ensuring that the financial reporting process was unbiased and that management decisions were subject to external scrutiny.

- *Earnings Manipulation Motivations:*

A common theme in the interviews was that earnings manipulation during M&As was often driven by the desire to achieve short-term financial goals, such as meeting market expectations or securing higher acquisition premiums. However, interviewees noted that firms with strong governance structures were less likely to engage in such practices, as the risk of detection and reputational damage outweighed the potential benefits.

- *CSR and Ethical Governance:*

Several interviewees noted that companies with robust CSR programs tended to prioritize transparency and long-term value creation over short-term financial gains. These firms were less inclined to manipulate earnings, as their governance frameworks emphasized ethical conduct and stakeholder engagement.

- *Overall Findings*

The combined results from both the quantitative and qualitative analyses suggest that corporate governance mechanisms, particularly board independence, executive compensation, shareholder rights, and CSR, play a significant role in mitigating earnings manipulation during M&As. Firms with strong governance structures were found to be more likely to engage in ethical financial reporting and to avoid the opportunistic behaviors that lead to earnings manipulation. Furthermore, CSR practices, which promote transparency and ethical decision-making, were shown to enhance corporate governance and reduce the risk of earnings manipulation.

Table 2 Summary of Key Findings from Quantitative and Qualitative Analysis

Key Finding	Impact on Earnings Manipulation	Supporting Literature
Board Independence	Higher levels of board independence are associated with lower earnings manipulation.	Elrazaz et al. (2024), Elmassri et al. (2020)
Executive Compensation	Performance-based executive compensation tied to long-term goals reduces earnings manipulation.	EIAIly et al. (2020), Fallah Shayan et al. (2022)
Shareholder Rights	Active institutional investors and strong shareholder rights reduce earnings manipulation.	Elmassri et al. (2021), Antwi-Boateng & Al Harasi (2025)
Corporate Social Responsibility (CSR)	Firms with strong CSR practices are less likely to engage in earnings manipulation.	Fallah Shayan et al. (2022), Kolsi et al. (2024)

These results highlight the importance of effective corporate governance and CSR in ensuring that M&As are conducted ethically and transparently. The next section will discuss the implications of these findings for both practitioners and policymakers involved in the M&A process.

V. DISCUSSION

This study confirms how important corporate governance mechanisms are in restraining earnings manipulation in M&A transactions. The analysis further intimates that M&As involving well-governed firms with independent boards, performance-contingent executive compensation, and shareholder rights enforcement are less susceptible to earnings manipulation. This clearly justifies the need for good governance practices in complex business operations in order to ensure financial

transparency and promote ethical business conduct during anaphylactic corporate transactions.

This finding, that independent boards reduce earnings management activities, is consistent with the extant literature (Elrazaz et al., 2024; Elmassri et al., 2020). Since independent boards offer an independent opinion on all matters dealing with both the operations and financial reporting of the firm, such boards act as the final defense against any management-induced financial accounting manipulation. Understanding board structure becomes very significant in light of this result and for encouraging transparent and responsible decision-making in the conduct of M&A. Independent directors are less concerned with the firm's day-to-day operations, while in fact, they are more interested in promoting the interests of shareholders and stakeholders over short-term personal gains. This governance mechanism brings another layer of scrutiny

against financial manipulation, a process often linked to M&A activities.

This research also reveals an important implication concerning the executive pay to lessen manipulation activities of earning. Performance-based compensation tied to long-term goals therefore aligns the interests of executives with those of shareholders, thereby reducing incentive to manipulate earnings for short-term gain (ElAlfy et al., 2020; Fallah Shayan et al., 2022). In particular, executives paid on long-term performance targets, such as sustainable revenue growth and profitability, are less pressured to engage in manipulation on earnings to meet short-term performance targets. This finding strengthens the hypothesis that executive pay should be structured toward encouraging ethical decisions and creating long-term value, particularly in M&As, where the temptation of inflating financial results might be strong.

The study also brings to that highlight the importance that shareholder rights can have in earnings manipulation. Firms that are subject to a stronger presence of institutional investors and to strong shareholder protection laws will tend to engage in transparent financial reporting during M&A. Institutional investors, by virtue of their voting strength and resources, constitute a formidable force in insisting that management abide by laws and adhere to ethical financial reporting practices. This is particularly so in M&A transactions where shareholders' interests, institutional or otherwise, could sometimes be overshadowed by the objectives of management. Retaining a voice for shareholders in the entire M&A transaction would ward off manipulation and ensure that the transaction is fair and accountable.

An essential point to note here from the qualitative study was stressing the importance of CSR in stimulating ethical behavior and in assuring a lower probability for earnings manipulation. Firms with intensive CSR practices usually focus on long-term value creation and stakeholder engagement, which, by nature, is concurrently considered an ethical principle in finance reporting policies. CSR has been argued to provide a system for the practice of fair conduct, arguing it increases transparency and accountability (Fallah Shayan et al., 2022). CSR companies focus on a broader footprint for the actions of those companies on their employees, customers, and community, and hence are less likely to engage in manipulative financial reporting for M&As. This highlights the need for CSR to be entrenched in corporate governance since it boosts ethical behavior and curbs opportunistic practices.

The regulatory framework in the UAE was also the major factor to be considered in this study. While great strides for corporate governance practices have been made in the UAE, issues still plagued the alignment of these practices against international standards. The pace of M&A transactions in the UAE is, according to Elrazaz et al. (2024) and Antwi-Boateng and Al Harasi (2025), much socially faster than the establishment of governance structures. For the UAE to check for earnings manipulation

in M&As better, it needs to strengthen its corporate governance framework in areas such as independent boards, executive remuneration, and shareholder rights. Embedding CSR into governance practices will equally provide an avenue for enhancing transparency and ethical decision-making.

To sum up, the research underlines the importance that corporate governance plays in reducing earnings manipulation during M&A transactions. Some mechanisms of governance largely considered among the most important ones include the independence of the board, the alignment of executive compensation to performance, and the participation of shareholders in corporate decisions to ensure transparency and ethical business conduct in financial reporting. CSR can also be integrated within governance frameworks to provide an additional accountability mechanism against the potential airing of manipulative earnings practices. Being an integral part of contemporary corporate strategy, M&As need to be protected by strong governance mechanisms that instill integrity into the entire M&A process while safeguarding the interests of shareholder and stakeholders.

VI. CONCLUSION

This study underscores the critical role that corporate governance mechanisms play in mitigating earnings manipulation during mergers and acquisitions (M&As). Through both quantitative and qualitative analyses, the research demonstrates that stronger governance structures—such as independent boards, performance-based executive compensation, and active shareholder rights—are associated with lower levels of earnings manipulation during M&As. These findings highlight the importance of transparency, accountability, and ethical decision-making in ensuring that M&A transactions are conducted with integrity.

Corporate governance mechanisms, particularly those that ensure board independence and align executive compensation with long-term performance, act as essential safeguards against earnings manipulation. Independent boards provide an additional layer of oversight that reduces management's ability to manipulate financial reports to meet short-term objectives. Similarly, compensation structures that incentivize executives to focus on long-term value creation rather than short-term stock price fluctuations significantly reduce the temptation to engage in opportunistic behaviors during M&As. Furthermore, the presence of active institutional investors and strong shareholder rights ensures that management remains accountable to the interests of all stakeholders, which is crucial in preventing financial misrepresentation.

Equally important is the role of corporate social responsibility (CSR) in fostering ethical business practices and reducing earnings manipulation. Firms with strong CSR programs are more likely to emphasize transparency and stakeholder engagement, which encourages ethical financial reporting. This alignment between CSR practices and corporate governance frameworks highlights the

growing importance of social responsibility in today's corporate world, particularly in high-stakes transactions like M&As.

The findings also point to the need for continuous improvement in corporate governance, particularly in emerging markets such as the United Arab Emirates (UAE), where regulatory frameworks are still evolving. While the UAE has made significant progress in improving corporate governance practices, challenges remain, particularly in aligning these practices with international standards. The rapid pace of M&A transactions often outpaces the development of governance structures, creating opportunities for earnings manipulation. For the UAE to effectively address these challenges, it must continue to enhance its corporate governance frameworks, focusing on areas such as board independence, executive compensation, and shareholder rights, while also integrating CSR into governance practices.

In conclusion, this study emphasizes that effective corporate governance is essential in preventing earnings manipulation and ensuring that M&As are conducted ethically and transparently. The integration of CSR into governance frameworks not only enhances financial reporting but also promotes long-term value creation for all stakeholders. As M&As remain a key strategy for corporate growth and market expansion, business leaders, regulators, and policymakers must work together to ensure that governance practices are robust, transparent, and aligned with ethical standards. Strengthening corporate governance is not only beneficial for preventing earnings manipulation but also for fostering trust in the corporate world and ensuring the long-term sustainability of firms.

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